SaskTel

Financial Statements of

HOSPITALITY NETWORK CANADA INC.

December 31, 2006

Hospitality Network Canada Inc. (Hospitality Network)
www.hospitalitynetwork.ca
Hospitality Network is the preferred provider of managed communication and entertainment solutions for the Canadian healthcare market. Hospitality Network provides service to more than 230 healthcare facilities nationwide, including Canada's largest hospitals and seniors care homes. Originally founded with private Saskatchewan business interests in 1993 to provide entertainment services to the hospitality industry, Hospitality Network became a wholly-owned subsidiary of SaskTel in 2005. Their head office is in Regina, with 310 employees nationwide including 32 in Saskatchewan.

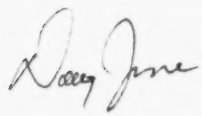
President's Message

Hospitality Network provides communication and entertainment services to two segments of the Canadian healthcare industry – acute care hospitals and seniors care homes. Our acute care division is the largest provider of hospital patient television and telephone rental services in Canada, and our seniors care home division is the leading provider of managed communication and entertainment solutions for seniors care homes.

Our primary focus is to continually strive to introduce new services that both enhance their customers' experience and generate additional revenues for our customer while understanding the Canadian healthcare environment and the challenges that it faces. Changing population demographics and technology developments require proactive monitoring of our customers evolving needs. New services that we have recently deployed or are under development include automated hospital patient rental services, clinical applications at the hospital bedside, VoIP-enabled telecommunication services, internet access, and long distance services.

We had a very successful 2006 generating total revenues of approximately $24 million with 92% generated outside of Saskatchewan. Our earnings before interest, taxes, depreciation, and amortization (EBITDA) represented approx 26% of our revenues.

I would like to thank our dedicated employees and management team and especially our customers for their contributions in making 2006 a successful year.



Doug Jesse
President and CEO, Hospitality Network

KPMG

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AUDITORS' REPORT

To The Member's of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Hospitality Network Canada Inc. as at December 31, 2006 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 9, 2007

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Consolidated Statement of Operations

For the years ended December 31, (Thousands of dollars)	2006	2005
Operating revenues	**$23,815**	$21,654
Operating expenses	**13,849**	12,319
Gross profit	**9,966**	9,335
Selling, general and administrative expenses		
Selling and administrative	**3,664**	3,954
Depreciation and amortization	**2,280**	2,055
	5,944	6,009
Operating income	**4,022**	3,326
Other items		
Interest income	**177**	67
Interest expense on long-term debt	**(809)**	(784)
Non-controlling interest	**(35)**	(26)
Gain on sale of assets	**117**	-
Net income	**$3,472**	$2,583

See accompanying notes

Consolidated Statement of Retained Earnings

For the years ended December 31, (Thousands of dollars)	2006	2005
Retained earnings, beginning of year	**$7,766**	$5,637
Net income	**3,472**	2,583
	11,238	8,220
Transfer to contributed surplus	**-**	324
Dividends	**1,736**	130
Retained earnings, end of year	**$9,502**	$7,766

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2006	2005
Assets		
Current assets		
Cash and short-term investments (Note 3)	$5,890	$4,226
Accounts receivable	1,147	1,178
Inventory	1,058	557
Prepaid expenses	258	185
	8,353	6,146
Property, plant and equipment (Note 4)	12,409	12,786
Deferred costs (Note 5)	1,594	1,484
Intangible assets (Note 6)	875	1,008
Goodwill	11,368	11,377
Investment in capital leases	104	128
	$34,703	$32,929
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$984	$964
Dividend payable	566	130
Current portion of long-term debt (Note 7)	470	440
	2,020	1,534
Long-term debt (Note 7)	12,227	12,697
	14,247	14,231
Non-controlling interest	194	159
Shareholders' equity		
Share capital (Note 8)	8,999	8,999
Contributed surplus	1,761	1,774
Retained earnings	9,502	7,766
	20,262	18,539
	$34,703	$32,929

See accompanying notes

On behalf of the Board

Robert Watson

Dale Baron

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2006	2005
Operating activities		
Net income	$3,472	$2,583
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	2,280	2,055
Stock based compensation	-	13
Non-controlling interest	35	26
Gain on sale of assets	(117)	-
Net change in non-cash working capital (Note 9)	(679)	185
Cash provided by operating activities	4,991	4,862
Investing activities		
Property, plant and equipment expenditures	(1,442)	(1,785)
Proceeds on sale of assets	352	-
Deferred costs	(521)	(608)
Investment in capital leases	24	22
Cash used in investing activities	(1,587)	(2,371)
Financing activities		
Repayment of long-term debt	(440)	(412)
Dividends paid	(1,300)	(125)
Cash used in financing activities	(1,740)	(537)
Increase in cash	1,664	1,954
Cash and cash equivalents, beginning of year	4,226	2,272
Cash and cash equivalents, end of year	$5,890	$4,226
Comprised of:		
Cash	$2,277	$2,204
Short-term investments	3,613	2,022
	$5,890	$4,226
Supplemental cash flow information:		
Interest paid	$809	$784

See accompanying notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

Hospitality Network Canada Inc. (the Corporation) is incorporated under the *Business Corporations Act*, Saskatchewan. The Corporation is a subsidiary of SaskTel Investments Inc., which is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco). The primary activity of the Corporation is to provide entertainment and communication services to Canadian hospitals and seniors care home facilities.

The financial results of the Corporation are included in the consolidated financial statements of Holdco, a Saskatchewan Provincial Crown corporation. By virtue of its ownership structure, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Consolidation

The consolidated financial statements include the accounts of the Corporation and the Corporation's 99% interest in Hospitality Network Canada Partnership with all significant inter-company transactions and balances being eliminated. The remaining 1% interest in Hospitality Network Canada Partnership is owned by Esterhazy Holding, Inc., a wholly owned subsidiary of Holdco.

Inventory

Inventory of equipment and supplies is valued at the lower of cost (first-in, first-out method) and replacement cost.

Property, plant and equipment

Property, plant and equipment is recorded at cost. Depreciation and amortization is provided over the estimated useful lives using the methods noted below:

	Method	Estimated useful life
Plant and equipment	straight-line	10 years
Office furniture and equipment	diminishing balance	7 – 10 years

With respect to property, plant and equipment acquired or constructed over time, the Corporation follows the policy of capitalizing related equipment, construction, and installation costs as plant under construction. These costs are then depreciated on a basis consistent with the Corporation's depreciation policy from the date the asset is substantially completed and put into productive use.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Deferred costs

Incremental direct selling costs related to obtaining specific contracts that. in the Corporation's view, have a clearly defined future market are deferred and amortized over the terms of the contracts. Deferred development costs relating to new product lines are amortized over the estimated period of benefit on a diminishing balance basis. Deferred installation and engineering costs incurred at the technical design stage of equipment installations are amortized using the straight-line method. The management of the Corporation periodically assesses the recoverability of these deferred costs with reference to expected future operations and will write off those deferred costs not considered recoverable.

	Method	Estimated useful life
Deferred selling costs	straight-line	4 – 7 years
Deferred development costs	diminishing balance	10 years
Deferred installation and engineering costs	straight-line	10 years

Finite-life intangible assets

Finite-life intangible assets acquired in a business combination are recorded at their fair values. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets.

	Estimated useful life
Customer contracts	8 years

Intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations, before income from continuing operations.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Investment in capital leases

In certain situations, the Corporation leases equipment to its customers. Due to their nature, some of these leases represent a sale of such equipment and an investment in long-term accounts receivable. Accordingly, the Corporation records a sale and cost of goods sold for each capital lease upon delivery of the equipment to the customer. Financing charges included in the lease payments received are recorded as income over the life of the lease.

Revenue recognition

Revenue from the provision of entertainment and communication services is recognized at the time the service is provided. Revenue from the sale of equipment is recognized when the product is shipped in accordance with the terms of sales arrangements, title or risk of loss has been transferred, and pricing is fixed and determinable.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment, the carrying amount of goodwill, the carrying amount of intangible assets and the recoverability of deferred costs. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 – Cash and short-term investments

Cash includes $212,000 (2005 - $212,000) that is pledged as collateral for a letter of credit relating to the guarantee of vendor payment for payroll. Restricted cash is not available for general corporate purposes.

Short-term investments consist of funds invested at an interest rate of 4.00% (2005 – 3.00%).

Notes to Consolidated Financial Statements

Note 4 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Plant and equipment	**$18,631**	**$8,427**	**$10,204**	$9,920
Office furniture and equipment	**1,083**	**616**	**467**	463
Plant under construction	**1,738**	**-**	**1,738**	2,403
	$21,452	**$9,043**	**$12,409**	$12,786

Depreciation and amortization for the year totalled $1,760,305 (2005 - $1,666,817).

Note 5 – Deferred costs

	Cost	Accumulated amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Deferred selling costs	**$2,647**	**$1,541**	**$1,106**	$1,005
Deferred development costs	**414**	**303**	**111**	136
Deferred installation and engineering costs	**574**	**197**	**377**	343
	$3,635	**$2,041**	**$1,594**	$1,484

Amortization for the year totalled $389,762 (2005 - $355,382).

Note 6 – Intangible assets

	Cost	Accumulated amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Customer contracts	**$1,037**	**$162**	**$875**	$1,008

Amortization for the year totalled $129,466 (2005 - $32,533)

Notes to Consolidated Financial Statements

Note 7 – Long-term debt

	2006	2005
	(Thousands of dollars)	
Due to Holdco, unsecured, bearing interest at Holdco's average monthly borrowing rate plus 0.25%; no fixed repayment terms. The effective average interest rate for the year was 4.28% (2005 – 2.86%)	**$2,801**	$2,801
Due to Holdco, secured by all assets, bearing interest at 6.55%; repayable in blended monthly installments of $92,000; due March 2016	**9,896**	10,336
	12,697	13,137
Less current portion	**470**	440
	$12,227	$12,697

Approximate principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2007	$470
2008	500
2009	535
2010	572
2011	610

Note 8 – Share capital

	2006	2005
	(Thousands of dollars)	
Authorized: Unlimited number of Class "A" common voting shares		
Issued: 102,710 shares	**$8,999**	$8,999

Notes to Consolidated Financial Statements

Note 9 – Net change in non-cash working capital

	2006	2005
	(Thousands of dollars)	
Accounts receivable	($10)	$428
Inventory	(622)	(13)
Prepaid expenses	(73)	133
Accounts payable and accrued liabilities	26	(363)
	($679)	$185

Note 10 – Commitments and contingencies

The future minimum lease payments over the next five years under operating leases of the Corporation for equipment and premises rent are as follows:

	(Thousands of dollars)
2007	$475
2008	351
2009	347
2010	97
2011	1

The Corporation also has a franchise agreement with VistaCare Television Services of Canada Inc. (VistaCare) under which VistaCare operates television service contracts under the name of the Corporation in designated hospitals. In the event of VistaCare's failure to perform the obligations under the contract, the Corporation would be responsible to perform these obligations, in exchange for the rental proceeds of the contracts.

In the normal course of operations, the Corporation may become involved in various claims and litigation. While the final outcome with respect to claims and litigation cannot be predicted with certainty, it is the opinion of management that any resolution would not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

Note 11 – Financial instruments

Credit risk

The Corporation has a sufficiently diversified customer base that is not subject to any significant concentration of credit risk.

Fair value

The carrying amounts of cash and short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

The carrying value of long term debt approximates its fair value. Fair value is determined as the amount at which long term debt could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities.

Notes to Consolidated Financial Statements

Note 12 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and the Saskatchewan Telecommunications Holding Corporation (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices (exchange values) under normal trade terms. These transactions and amounts outstanding are as follows:

	2006	2005
	(Thousands of dollars)	
Operating revenues	**$222**	$327
Operating expenses	**737**	734
Interest expense	**784**	770
Property, plant and equipment expenditures	**45**	94
Accounts receivable	**55**	40
Accounts payable and accrued liabilities	**-**	2

The Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases. Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.